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SUBJECT: UPDATE ON SURINAME'S PLAN TO IMPLEMENT PETROCARIBE AGREEMENT

REF: A) 05 PARAMARIBO 602

B) PARAMARIBO 141

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11. (SBU) Emphatic recent public remarks of Natural Resource Minister Gregory Rusland that everything is in place for Suriname to implement its PetroCaribe agreement notwithstanding (see ref A), there remains significant opposition among important Government of Suriname (GOS) players. According to the Permanent Secretary (Perm Sec) for Energy, Mining and Water Supply, Jainoel H. Abdul, the Finance Minister is uncomfortable with the increased debt levels resulting from PetroCaribe's financing scheme, and the state oil company's director has serious reservations about the role his enterprise is expected to play. Asked to explain the decision to move forward despite these reservations, Perm Sec Abdul cites a wish to diversify supply sources and cites a scheme to invest short-term savings to both meet the Venezuelan loans and reduce mortgage rates for Surinamers.

12. (U) Recent statements made by Minister Rusland have given the impression that Suriname is ready to move forward with PetroCaribe immediately. A March 2 article in newspaper "Dagblad Suriname," for example, reported on Minister Rusland's remarks that once technical requirements for the import of the oil are completed, only the administrative steps remain.

13. (SBU) In a meeting to explore Suriname's expectations regarding PetroCaribe, EconOff asked why the government would proceed with the agreement in spite of its serious concerns. Mr. Abdul replied that it is necessary for Suriname to find cheaper, alternate sources of oil. He stressed that Suriname did not want to eliminate current international commercial sources of oil, but merely reduce dependence on a small pool of suppliers. The government envisions importing 5,000 barrels of oil from Venezuela per day, or 1,825,000 barrels a year, about one-third of Suriname's total yearly imports.

14. (SBU) When asked to explain how Suriname would avoid indebtedness inherent in PetroCaribe's long-term financing scheme, Mr. Abdul explained Suriname's plans. The GOS proposes to sell PetroCaribe oil to the state electricity company (EBS) and Suralco at fair market prices and reinvest the returns at an anticipated 7 percent return.

Given the two-year interest grace period on Venezuelan financing, the government predicts it can not only service the loan from the proceeds but also net a further \$2.5 million USD per year. This money would be made available for commercial banks to offer 7 percent mortgages to address the country's low-income housing shortage. (Note: current commercial mortgages average 14 to 15 percent. End note.)

15. (SBU) Mr. Abdul admitted that these rosy plans face several logistical challenges. Currently 63% of the state oil company's (Staatsolie) domestic product is supplied to Suralco. As a reliable customer that always pays its bills, Suralco purchased \$80.5 million USD worth of domestic oil in 2004 from Staatsolie. Under the proposed PetroCaribe agreement, Staatsolie would simply be used as a storage and transport facility, rather than producer/supplier, seriously undermining its business model and explaining its lack of enthusiasm for the plan. As for the sale of oil to EBS, Staatsolie supplies a mere 4% of its output to the utility company which is on the verge of bankruptcy and is currently receiving government-subsidized oil to be able to continue its operations (see ref B). It is not likely to be operating in the black in the foreseeable future. Neither is it certain that low income Surinamese will have the wherewithal to take advantage of the lower interest rate mortgages without an increase in their overall purchasing power.

16. (SBU) EconOff asked if it would be more helpful to Suriname if President Chavez simply discounted his oil rather than create this elaborate financing scheme; Mr. Abdul replied that the Venezuelan president cannot offer discounts per OPEC rules. There are two external events, which may compel Suriname to formulate a near-term consensus on the PetroCaribe agreement: 1) a CARICOM meeting next month in Jamaica to ascertain how PetroCaribe is being implemented among member states and 2) pressure to

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conclude an implementation agreement (third phase of PetroCaribe agreement) between Staatsolie and Venezuela's state oil company PDVSA, which will force Staatsolie to publicly voice its concerns.

Comment

17. (SBU) It is clear that among fiscal conservatives within the Surinamese government and the, to date, well-run state oil company, there are serious reservations about the long-range negative impacts PetroCaribe oil will have on the economy. There has also been scant thought given to what view Suriname might eventually have of this arrangement if/when Suriname becomes more than a marginal oil exporting country.

BARNES